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The Issue of People's Shares in Western Germany

The discussion on the issue of "people's shares" which has been going on in Germany for some time has, though the idea itself has been imported from Austria, several different roots: there is at first the effort to increase private savings in excess of the increasing volume of savings accounts, which is intended partly as a stabilizing measure, partly as a possible means to revive the stagnant German capital market; another root is the socio-economic aim of the "Social Market Economy" to further private property formation in the hands of the broad masses of the working class; the third is the search for an alternative to industrial partnership schemes; and finally, as has been the case in Austria, the idea of the people's share has been connected with the privatization of State-owned concerns. In the following contributions economists and politicians discuss the pro and con of those plans which will play an important part in the future development of economic policy.

Saving through Accounts or Investment?

From the end of 1948 to the end of March 1957, the volume of savings deposits in this country rose from about DM 1,500 million to almost 25,000 million. Some 80 per cent of this figure are held by savings banks and credit co-operatives, a considerable portion being made up of medium and small deposits. This extraordinary increase in savings since the currency reform would have been impossible were it not for the savings activity of the broad group of wage and salary earners who account for a high percentage of all savings. So there can be no doubt that there exists a propensity as well as ability to save, but its intensity is largely determined by those political factors that have a lasting effect on consumer prices. The shortage and price increases which resulted from the Korean conflict and the Suez crisis, were promptly followed by a distinct decline in new savings. It is apparent, therefore, that the recipients of personal incomes can save, and moreover that they want to save at least so long as there is no sufficient evidence that the value of money is going to depreciate badly. The obvious conclusion then is: if savings activity is to be maintained and promoted, the first and foremost thing to do must be to make sure that there will be no decline — or at least no severe decline — in the purchasing power of money.

It seems that a relatively minor decline will be generally accepted, and in the past it has not obviously had any negative effects on the volume of savings — as is evidenced by the almost persistent slight decline in the value of

money which has occurred in recent years, which has averaged between 2 and 3 per cent.

Investment Saving Gaining Ground

The period which has elapsed is not yet long enough to be certain whether we are concerned here with temporary phenomena or with a lasting depreciation of the currency. Yet, the numbers of those seem to increase who are rather sceptical about the future trend in proportion with this increase, growing importance will attach — consciously or not — to the problem of investing savings in real value. If this trend continues (and many factors indicate that it will), the method of saving in ordinary "savings" accounts without tax concessions or premiums will find it increasingly hard to hold its own against direct or indirect investment in real value. At a time when the value of money is declining slightly but persistently, the interest of the savers will automatically shift to securities representing real assets, or to real values which in spite of depreciation will maintain their prices if they do not even register price increases. The purchasing power of a sum of money saved since 1950 has declined until this day by approximately 15 per cent. Mathematically this decline was of course more than compensated by the interest received. But interest — being the price for making available a certain capital, and perhaps being also a premium for the running of risk — has distinctly other functions than that of compensating a decline in the value of money. In other words, if the rate of interest were to per-

form a further function beside the one it is performing now, i. e. if it were to compensate a decline in the value of money, it would have to be higher than it is anyway. No doubt these problems will acquire further significance, and savers will become more generally aware of them, once all the tax concessions at present connected with saving on saving accounts will be abolished without being superseded by other promotional measures, such as the premiums which have been proposed.

The big advantage connected with the purchase of real value, as compared to saving on savings accounts, can be clearly illustrated by the following example: A man who has built a house in 1950 has invested his money in real assets, and in spite of the use he has made of his property he has considerably increased its nominal value on account of the price increases, but in addition to all that he has benefited considerably by the depreciation rates.

These attractive characteristics of real assets are not of course a recent discovery, but it is largely due to them that an ever rising number of patterns of saving are coming to the fore now which are somehow connected with real assets. These include above all building society contracts, investment saving, the "people's share," and the "Hausa Real Assets Investment Company" recently established in Hamburg. While investment saving and people's shares are limited to participations in joint-stock companies, this new company has created a much wider field of activity for itself by also including investment in limited partnerships, real estate, claims and other deeds which all serve as a basis for the investment certificates in-

sued by it. The holders of these certificates will participate not only in the company's normal yield but also in the depreciation. Since the company acts merely as a trustee, investment will be direct. The returns will be treated as taxable income derived from a commercial enterprise or from letting and leasing, hence will not be income from capital as is the case with direct or indirect investments in securities.

New Patterns Still Negligible

The patterns of saving in real assets are still but of minor importance as compared to the conventional saving on savings accounts. For instance, the stock held at present by the west German investment companies is valued at only about DM 160 million. Yet, if one considers that these new patterns are still of very recent origin the present result is quite remarkable. In course of time they will continually acquire further significance, but it is still too early to know whether they will actually come to be a serious competitor to saving on savings accounts and through insurance contracts. Obviously this will be determined by a variety of factors.

If the credit institutions succeed in providing the savings deposits with an equivalent for the depreciation of the currency — of course in addition to normal interest — then there are indeed good prospects that saving on accounts will continue to predominate. But independent of this problem, there is the further important aspect to what extent savings accounts are accumulated for specific predetermined purposes. Statistical data are not available in this field, yet it is obvious that savings made only for specific purposes will hardly be accumulated through other channels — even if these were more attractive in other respects.

After what we have said, people's shares are only likely to be accepted by the market in sizable quantities if, due to their nature of real assets, they can offer a considerable advantage over saving on savings accounts. Furthermore, it seems indispensable that psychological steps should also be taken to prepare the ground for people's shares. An opinion survey on a representative sample basis has revealed that some 95 per cent of the population did

not know what a share actually is. The interest of a wide public will remain relatively limited so long as this situation will not have been changed fundamentally. Presumably it does not matter much whether or not the people's shares will be launched in combination with the transfer of public companies to private ownership. And incidentally, this is to some extent a political problem. Furthermore, the Austrian type of people's share is rather not an ideal example for purpose of comparison. It is rather in the nature of a bond, as three quarters of the shares sold to the public are not equipped with voting rights. They are non-voting preference shares with a fixed dividend of 6 per cent. The net yield, after deducting the capital tax, is only 4.3 per cent, however.

And then, it would seem, decide whether the legal and tax provisions and the institutional set-up can be put in such clear and simple terms that they will be intelligible to a wider public. A particularly important point will be to do away with double taxation on share capital. And care will have to be taken that no fundamental differences will exist between people's shares and ordinary shares, as otherwise there would occur a splitting — and hence weakening of the stock market.

People's Shares also a Risk-bearing Investment

The quota of savings is still inadequate in view of the high investment and accumulation requirements, and this is not likely to improve in foreseeable time. So it is small wonder that the search continues for ever new patterns of saving.

A Comparison with Other Patterns of Saving

Of late, the "people's share" has been promoted to a much quoted slogan in this country. It is regarded by some as a panacea by which every citizen's ambitions can be focused on the concept of private property, at the same time effectively expanding the potential of the country's stock market. On the other hand, those who are opposed to private ownership for the means of production are again remembering the traditional arguments speaking against the creation of shares for everybody.

Terms and methods either to direct the available flow of capital into specific channels or to open up additional capital sources. The guiding principle should be that any type of investment deserves continued promotion so far as it is able to raise additional savings capital. On the other hand, if a new pattern of saving can only result in fluctuation, in temporary investments, or in unjustified discrimination against conventional patterns without attracting new capital, it would bring no benefits for the national economy seen as a whole.

To date, the long-term trend on the German stock markets has developed without any too severe repercussions. The project of the people's share will so doubt benefit by this circumstance. But many interested observers focus their attention exclusively on the post-war events and are apparently convinced that nothing will change even in future. We may be permitted to emphasize that savings in people's shares would participate not only in the prospects but also in the risks of the overall economy. If, as has happened at times, prolonged slumps should occur on a broad scale, then the people's shares would also of course be adversely affected. We should never fail to account for this latent risk. And investors should only buy people's shares, if the respective funds are, in fact, to be invested for a considerable period of time, so that they can stand up to any sharp breaks in the opposite case, people's shares might increasingly be used as speculative securities.

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For the sake of definition, a people's share may be described as a security by which a conventional and legal pattern of industrial financing and secured capital investment is to be better adapted to the social and commercial requirements of our time. People's shares are to be issued as marketable property deeds in the sense of bearer shares — if necessary even registered shares — and are to be available for purchase and resale by any individual.

Denominations, issue, price, and profit prospects would have to be such, however, that they would be attractive for the little man and the middle-class investor.

The success of people's shares will largely depend on the reputation of the company by which they are issued. The company's name will have to mean something even to the inexperienced saver, that is to say, even the name as such will have to be good advertising. By contrast, it will not be decisive whether the issuing company will be wholly or partly under public or private ownership at the time the people's shares appear on the market. When these main features are compared to the practices obtaining on the German stock market, it cannot be denied that even private companies and syndicates would be well suited to launch such a type of people's stock. In fact, numerous examples are available of companies the stock of which is held by members of the most varied occupations, as e.g. Messerschmitt and Hoesch in the iron and steel industry. In the United States there are today about 10 million direct shareholders, among them some 9 million little ones (so that one out of twelve Americans is a shareholder), and in the United Kingdom 2 million out of 10 million wage earners are owners of securities; and when we look at these figures, we will of course have to admit that Germany has only just entered an "infant stage" in this development. But it is in our own hands successfully to promote this trend by imaginative measures: it is not too late to launch a competition with investment saving.

A high standard with no doubts have to be applied in the financial backing, probability, good will, and public relations work of a company which wants to place people's shares. This will not get us around the hard fact, however, that any purchase of stock presupposes the willingness to run a risk, the decision directly to participate in a specific company and thus to accept certain personal ties (perhaps for a limited period of time), and a personal interest in the future of the company in question. Where investment saving is concerned, on the other hand, an expert management will relieve the investor of the decision as to which stock he should select and how he should exercise his proprietary rights, including his voting right. On the

count as the careful mixture of the trust company's stock by areas and branches of industry, an investment certificate will be largely protected against the risks connected with the stock it represents. While investment trust companies pay a relatively stable dividend, though reduced by their own administrative expenses, and while the price of the investment certificate does not depend on the special fluctuations registered by the stock of which it is made up, ordinary shares, and people's shares with them, are characterized by yields and risks which are determined by the returns and prices obtaining in a single company or branch of industry. And as a people's share calls for an investor who will accept these rules, it would of course be wrong to reserve such stock, let us say, exclusively for the working classes or the low income brackets.

Comparison with Premium Saving
Where people's shares have been introduced as defined in the Housing Construction Premium Bill of December 21st, 1950, resemblance with people's shares is confined to the circumstance that both types of saving aim at direct participation in real assets. As a people's share is bought by a single act of purchase, it is not burdened by recurring contributions over a period of at least five years, nor is it characterized by a refund of the bonus granted such as it has to be reflected by a premium cover if he cancels his saving contract prematurely. A premium saver who keeps his contract can count on a guaranteed premium which amounts to between 25 and 35 per cent of the money paid in under the contract, the maximum being DM 400 annually, however, not to be contrasted with a shareholder's chance to though not the certainty that if he holds his stock he may realize a profit which puts his yield at least level with premium and building society contracts. An investor in people's shares does not have to accept a fixing of his engagement in point of time nor a fixing of his place of residence, as would normally be the case if he saves for a home of his own.

Comparison with Profit Sharing
We feel certain, however, that the launching of people's shares would be far more desirable than any proposal to achieve, by legal

appointment, that companies employing more than 100 persons should allow their workers a share in the profit and capital of the firm, no matter what may be the company's organizational set-up. A law of this type, which was in fact proposed recently by the German Clerical Workers' Union, is to be rejected not only because it would end up in expropriation and collectivization: it would moreover suggest to the workers a conception which would be harmful to the progress of the national economy, namely that an individual can accumulate personal property without having to forego a corresponding part of his consumption, and that the capital accumulated by companies was made up of funds which by rights ought to be added to the workers' wages. In this fashion we can hope neither to secure a high measure of popularity for investment in securities nor to solve the problem of investment, all which we are confronted today and shall be confronted in future.

The Features of a People's Share
If we may ignore in this context the much-discussed project of transferring public industrial companies to private ownership, the launching of people's shares would not require any action on the part of the legislative. A variety of possibilities to create this type of stock are offered by the provisions of company law at present in force. Thus, there is the ruling that the minimum denomination laid down for a share certificate is one hundred Deutsche Mark, and that higher denominations shall be in full hundreds of Deutsche Mark, in the interest of finding a ready market for the people's shares, it would seem inevitable anyway to choose denominations of, say, DM 100, 200, 500, and 1,000. Incidentally, issuing companies could provide such stock with incentives, for the little investor similar to those offered by some big industrial undertakings who are each year selling stock to their own workers and who have apparently obtained good results with this practice. (The author is familiar with the respective terms of issue, and he feels certain that the existing kinds of this stock can even now be regarded as ideal people's shares, although they are available only to a limited group.) Potential savers from all occupations are here appealed to as by

the possibility of acquiring a drawing right below the stock-exchange quotation, either at par or just above it. It was the prospect of such an increase in value which contributed much also to the success of the Austrian experiment.

A well-known industrial company has offered its workers to buy its stock at special prices, everybody being entitled to buy for as much as 25 per cent of his annual bonus and special grants, and the company even paying all secondary expenses such as stock-exchange turnover tax, bank commissions, etc. The price of the stock purchased is deducted by the company, pay office either from the annual bonus or, in three monthly instalments, from the buyer's wage. Administration of the stock is in the hands of a special trust company, which transmits the dividends to the company pay office, and which also accepts selling orders after an initial period during which the stock must not be sold. The experiences gained by this company have shown that, due to the favourable terms of purchase, many workers regard this as an attractive new method of acquiring property, even if they cannot dispose of the stock during the first fifteen months, during which time an inexperienced investor can become familiar with the benefits of investment in stock.

The Contribution of the State

If even private companies have feared neither cost nor risk to promote this important experiment in the interests of social policy and a prospering stock market, it would seem all the more imperative that the State will also contribute to this development so as to make the German stock market a popular instrument of saving and property formation. In particular, the State could stabilize dividends in poor years by reducing double taxation on share capital, thus helping to consolidate the level of stock prices. Investment savings and the rest of the stock market would benefit by this measure too. The capital tax, which with its rate of 25 per cent is not applicable to the majority of taxpayers and thus entails time-consuming refund procedures, ought to be cut to 15 per cent. The abolition of minor taxes, such as the stamp duty, would also facilitate the introduction of people's shares.

In view of the successful outcome of the experiment in Austria, there is every prospect that the project of people's shares would inaugurate a welcome trend in Germany as well, if it is combined with a scheme to restore public companies to private ownership. If a start were made with an undertaking such as the Volkswagen Works, good results would no doubt be forthcoming and experience gained for the next steps to be taken. The giant project of transferring all industrial companies now owned by the State to a special investment trust company would rather require further scrutiny as to its practical consequences. Due regard should be had here for the absorption capacity of the capital market of the Federal Republic.

The Problem of Voting Rights

If in Germany public companies are in fact to be returned to private ownership, it does not seem expedient to copy the Austrian example of limiting non-voting preference shares with a fixed dividend. Although such stock

One Minor Advantage

is at present all quarters today, it is considered a more or less urgent goal to promote the accumulation of property by persons employed in dependent positions. The intentions underlying this demand are fairly valid. The idea with some is to lend new weight to the concept of private property and to curb the trend to the general-welfare state; others want to check the concentration of power in the modern economic society and at the same time to correct the distribution of the national product; yet others are out to promote saving and capital accumulation, and to strengthen the foundations of the market-economy by engaging the workers in it as investors.

It is not very likely that the goal could be served adequately by an activation of the social housing scheme. This would seem impracticable in view of the relatively small amounts that would be involved here, and even more so in view of the fact that some kind or other of investment in a commercial enterprise is simply the basic and determinant pattern

under German company law. It would not seem good practice to characterize a people's share from the outset as a security without voting rights, and thus to give rise to doubts into the sincerity of the project generally. It is the intention of the legislative that the voting right shall be an indispensable complement of all stock, and it has been laid down that it cannot actually be given up by the shareholder. A preference share without voting rights is rather something like a transitory stage between a stock investment and a bond.

No doubt, a wide distribution of stock capital into many small parcels will present new problems of voting rights. The danger of "vote" on behalf of a stock deposited with them will not suffice to solve these problems, and it will be necessary to look for new ways here, but these should be sought outside the political or ideological sphere, i.e. they should bear no resemblance to the proposal that voting rights may be exercised by representatives of the trade unions.

Big Disadvantages

First of all, the accumulation of property in a modern economic system. So, the attainment of our aspects of social and economic policy has been achieved, in the same time on the problem how investment savings can be made attractive to the broad masses of the working population. One will do well in this context to distinguish between two different questions: that about the origin of the savings that shall be accumulated, and the other about the most attractive patterns of saving.

The Origin of Savings

Where the structural effect of property accumulation by the workers is concerned, the first question is decisive in view of the conventional conception of workers' income ("consumption wage") and hence of the average wage level. It cannot reasonably be expected that the workers could — even if they wanted to — resort to investment saving in a degree which would entail a really fundamental correction of the present and future distribution of wealth. From the viewpoint of economic policy, moreover, it would not even be entirely with-

out its dangers if the wage earners started a sizable savings activity all along the line. Under certain circumstances this could adversely affect business expectations and might produce a depressive tendency.

So it has been proposed by various quarters to step up the worker's income by what is called an "investive" wage component by which the wage earner is to participate in the net investment of any one time, thus actually affording him a worth-while source of property accumulation. From the point of view of the national economy, however, such an experiment could only be advocated if there are guarantees that, on an average, the additional income will in fact be permanently saved and will somehow contribute to the nation's capital accumulation. This is where the question of attractive patterns of saving arises, patterns which should be cut specifically to suit the position of the workers.

One thing to do is, of course, to follow a moderate course and to reflect, without any undue ambitions of social policy, on such patterns of investment saving which today are not attractive to potential investors among the wage earners. This is the idea underlying the newly created concept of "people's shares." What is new about it is actually only the proposed small denominations which are to meet the requirements of a worker's budget. It is not known whether such stock is to be further sponsored by specific tax privileges. On the other hand, it is not to be provided with voting rights.

If we for once ignore this latter deficiency, some time ago, a number of companies offered their workers shares of small denominations which even had the advantage of a reduced issue price, and yet the experiment has not found wide acceptance. Can the people's shares fare better?

Worst Type of Saving
The people's share for the worker is no doubt the most problematical among all the various patterns of saving, such as premium saving, insurance and building society contracts, investment saving, or the acquisition of co-operative stock. The only advantage which it may possibly have to its credit, namely that of affording a higher yield to its holder anyway for small denominations under double taxation, is

made up by big disadvantages. The individual working-man investor is expected to purchase securities direct, although as a rule he has no experiences whatever on the stock-market. With his small income, he will be hit unproportionately hard in the event of losses; yet, the people's share will expose him to the same risks as big investors. A further point to be considered is that the working-man investor may eventually be compelled quickly to dispose of his stock to meet urgent personal requirements; the proceeds from his people's share would then be determined by the exchange quotations applying at the given time for the stock of a single company, in contrast e.g. to an investment certificate, all of which is a threefold handicap facing the small investor is tried to be compensated somehow or other by the other patterns of saving which we have mentioned. If the people's share is to be made more attractive too, this seems possible only by creating some greater resemblance to the forms of investment saving.

Effect on the Capital Market
Not the investments in people's shares fully desirable from the viewpoint of the national economy. The nervous small investors will necessarily do more harm to the functions of the stock-exchange than they can contribute to the process of capital accumulation. Their voting rights will be absorbed in the bank deposits and will add to the independence of management. If the shares change their owners there is no way to exclude the possibility that the stock will again be combined in big parcels. The proposal to deprive such stock of any voting rights seems to have been prompted by the idea to try to counter such tendencies; but the saver in people's shares would thereby be reduced to the rank of a second-class investor. What would at all seem to be a reasonable procedure would be to issue the stock as bearer shares to check the fluctuation of ownership. On the whole, the prospects of a higher liquidity of the capital market should not be unduly emphasized if these risks cannot be avoided. There simply is no getting around the fact (however unpleasant it may be) that in a modern market economy, investment saving by the wage earners cannot function without some kind or other of

solidary support for the sake of security, profitability, and the principle of a fair distribution of power. There are other spheres where this structural element has also had to be accepted.

Finally, the concept of the people's share is sponsored by the consideration of economic policy that some purchasing power should be distracted from the demand operating on consumer goods markets. This effect would be welcome to the extent that the saving is pushed up and duly from this side. But we should not lose sight of the demand for capital goods, which may possibly experience a more than proportional increase, furthermore, of the persistent foreign trade surplus which acts as a one-sided stimulus on the volume of money in circulation, and finally of the speculative influence exercised on the domestic price level by world market prices.

In short, no one will be stopped if he wants to buy people's shares, and if he does want to this investment will be open to him, but it seems hard to propagate such stock with a clear conscience, or even to praise it as the ideal pattern of investment saving for the working population.

Private Ownership for State Property?

All these problems would stand even if the people's share were launched by private quarters. In the present project, however, it has been coupled with the intention of bringing public companies under private ownership. It would be incorrect in most cases to speak of a restoration to private ownership. Opinion may be divided as to whether this is a positive or negative aspect psychologically. Materially, the following further problems arise here: To what extent would private ownership be practicable and desirable at all? Can it be in the interest of the tax-payer that, possibly, only the best bids are picked out by the private investors? And how about the consumer's interests in the field of price policy if there can be no guarantee that, after a transitional period, the people's shares of attractive companies will find their way to those oligopolists who so far had suffered a certain price pressure from this side? And finally, what is to happen with the proceeds accruing from the sale of the public property? These are but some of the difficult questions awaiting an answer.

shares, the little shareholder will come to think that he has been cheated.

of a people's share was not proposed until stock prices began to slump slightly after their phenomenal upward movement. Are the

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The Splitting of Share Capital

Moreover, at a time when the predominance of management and board of directors over the shareholders is maintained, a splitting up of the share capital will in practice intensify the trend of going away with democratic procedures in a joint-stock company.

In a situation as this it may easily happen that small shares have no other effect than to spread as much of the risk to as many people as possible, at the same time withdrawing from these people all many benefits as possible, and so it is.

In recent times much tribulation has been paid to the fact that in the United States for example the concept of "property for the people" has materialized via the stock market. And when the trade unions nevertheless emphasize "guiltless" rights it seems that in this era of the economic miracle the process of property formation has bypassed the working population, the statement is countered by calling attention to the idea of the little shareholder after the American pattern.

The fact is that the numbers of
 shareholders rose immensely dur-
 ing the years around the turn of
 the century and during the great
 depression. This revolt of the
 masses on the stock market forced
 upon us the so-called socialists and
 the communists. The problems of the
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 class struggle, were brought before
 us in a brilliant manner. It was
 the multiplication of the num-
 bers of shareholders was brought
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 lack of power and that the crea-
 tion of shares for the masses by no
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 power.

The ultimate stage, when one-dollar shares can be bought at the door from peddlars, would be the final subversion of a whole nation to the idol of speculation. Between 1922 and 1929, the index of stock prices climbed to 500 per cent. The final result was the hangover of the great depression.

lacking courage of the big ones? And if it is tried simultaneously in

invest a method of "restoration to private ownership" one might further ask: Can there be any sense in replacing public funds for investment in public companies by no a inequity

Rapprochement without Re-

Diplomatic activities of the two nations, an energetic effort to achieve peace, and it would seem an entire satisfaction as we ourselves, Poland and as our appeals to the big powers, are to serve the same purpose, not very pronounced in this country, we have experienced more than once the settle the practical details with a will, ready in nothing but a demand is the exclusion of the practical problems; precisely for this country, of political tensions is only to findings, but it is obvious to the man that it could really convince us.

"Diplomats" at the highest level from drawing big circles on the map shows, however, that these circles of interest as one never went to the lines as to their real course. Such claims of surface and actual inspection of France as well as the Soviet Union number of other "critical areas" would carry out such inspection to the conclusion to the present time. More or less demilitarized of limited observation, when we live in the age of this technology had now been exposed. A recent year it might perhaps be a country to extend their interest to include southeast Asia and the Far East. Another which could also form a camp underneath to abstain from interference a bold approach to settle conditions would do more to ease international relations.

Where Germany is concerned, the
will mean that the reunification issue
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posed on themselves at the end of the
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